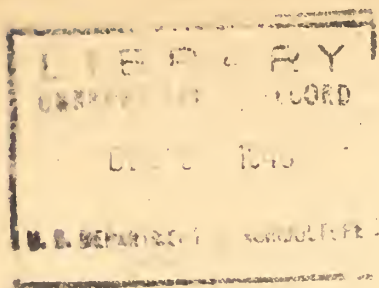


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Ad 6 FmUNITED STATES DEPARTMENT OF AGRICULTURE
SOIL CONSERVATION SERVICE
Washington 25, D. C.

FIELD MEMORANDUM SCS # 1126

Re: Compliance with Section 3678,
Revised Statutes, in the
Expenditure of Appropriated
Funds

November 16, 1948

Attached is a memorandum from the Secretary, dated August 31, 1948, which points out the necessity for the head of each agency to be prepared, if called on, to clearly demonstrate that his agency has in effect adequate and effective processes to assure that its expenditures are in compliance with the spirit and intent of Revised Statute 3678. Attached also is a copy of Budget and Finance Memorandum No. 24 to which the Secretary refers in his Memorandum.

As public servants it is our responsibility to see that the funds and time of personnel placed at our disposal are used not only effectively but strictly in accordance with the intent of the laws, regulations, and policies which govern the various work programs of the Soil Conservation Service. I want you to review the attached memoranda very carefully and also the legal limitations and requirements applicable to each program or phase of work of the Soil Conservation Service which you have the responsibility for administering. Be sure you are carrying out your responsibilities in such a manner as will assure that funds expended therefor are being applied solely to the objects for which they were made available. If any changes in work, policies, or procedures appear necessary to enable you to comply fully with these instructions, the matter should be referred to the responsible office through regular channels for explanation or corrective action.

In an organization like ours, which carries on such complex and diversified types of activities, I am aware of the fact that certain activities, by their very nature, dovetail into each other in such manner that clear lines of program demarcation are very difficult. I have asked that our program and financial policies and instructions in this regard be examined carefully to see that they clearly outline the requirements of law and regulations. I watch these matters myself as much as I possibly can, and whenever I run into a situation where there seems to be any doubt whatever, I bring the matter to the attention of the responsible officers of the Service with instructions to clear up the problem promptly. We have had an outstandingly clear record with our fiscal work and I don't want it marred by anything. Every job assigned to us by the Congress or the Secretary can and must be accomplished in accordance with the applicable laws and regulations and I want you all to know that this is the only way it is to be done.

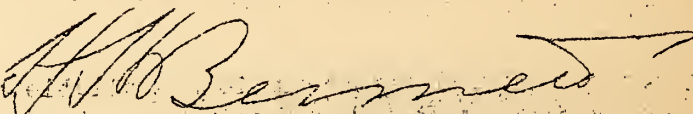
Since there are several appropriations available to this Service we have a particular problem in prorating expenditures between them. We have always followed wherever possible a policy of charging salaries and expenses directly to the appropriations made for the programs on which employees are actually working or for which expenses are incurred. There are instances, however, such as in the Washington, regional and state offices, where a single staff of administrative

2-All Ranking Field Officers
ED THOMPSON
JANUARY 1941
J. G. B. H. H. H.

and technical personnel performs the same functions for each of the several programs administered by the office. Often the work of these employees is of such a type as to make it practically impossible to determine which program specifically benefitted from the work they performed, or how much each benefitted. The matter of distributing to the various benefitting appropriations the proper portions of the aggregate expense of these Washington, regional and state office staffs is a problem to which this Service has always given careful consideration. In the interest of economy and on the basis of various interpretations of the legal requirements we have generally followed a policy of prorating such expenses between appropriations, usually on the basis of the ratio of each fund to the total funds available. The effect of this system of distributing so-called "overhead" or indirect expense, when analyzed in connection with our particular programs, results in a distribution similar to one based on direct labor costs. The latter is an accepted and well-recognized cost accounting practice. It appears, however, that we must now have additional factual data to support the correctness of this system or any other accounting system that we might install.

At the present time we are working with the Departmental people and will discuss with the General Accounting Office an acceptable procedure for charging to the various Service appropriations those indirect costs, such as much of the expenses of the Washington and regional offices and some of that of the state offices, which cannot practicably be measured and charged direct to the specific appropriations benefitted. We also want your help and suggestions in this matter. In the meantime, I want the test checks made by the Budget and Finance Divisions several months ago followed up with an immediate detailed time check of a period of one or more weeks to verify whether or not each appropriation is being properly charged with expenses incurred. This applies to employees all over the Service who are working on more than one program. Except in those cases where the test check is definitely known as not being normal, i.e. representative of the employees' usual work assignments, budgets and accounts either should be adjusted to accurately reflect appropriation charges or work assignments should be adjusted to availability of funds. In some cases employees will have some work which cannot be assigned to any specific appropriation; for example, writing of policies and procedures, attendance at meetings in which activities and general problems under all programs are discussed, preparation of general financial statements, etc. I suggest that you provide a "general" column on your time check sheets for such time. This column should be totaled at the end of the period and apportioned on a reasonable basis to the appropriations which have been benefitted.

Until further notice or until a different "approved" accounting system is forwarded to you by the Budget and Finance Division, similar test checks to verify appropriation charges should be made during the last month of each quarter, just before you revise your operating budgets. These test check sheets should be summarized and retained in the Budget and Finance Division to support the expenditures made.



Chief

(COPY)

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

August 31, 1948

Memorandum for Mr. H. H. Bennett:

Attached is a copy of Budget and Finance Memorandum No. 24, dated August 17, 1948, which reemphasizes the necessity for maintaining in each agency adequate and effective administrative and financial policies, procedures, and controls, and especially for reexamining agency procedures relating to the distribution of expenses to various funds and appropriations administered in the Department. Although the Memorandum is being distributed generally throughout the Department, its subject matter is so directly related to the responsibility of agency heads that I believe it warrants their personal attention. The subject is not new; special emphasis has been placed upon it in the past. However, in view of the importance of the principle involved, as reflected by the 1949 Appropriation Committee Hearings and Report, I am now asking the head of each agency to assure himself that his agency, if called upon to do so, can clearly demonstrate that it has in effect currently adequate processes to assure that its expenditures are in compliance with the spirit and intent of Revised Statute 3678. Should you find it necessary or desirable at any time to strengthen methods and procedures used in your agency for this purpose, I am sure you will take appropriate action without delay.

/s/ Charles F. Brannan
Secretary

Attachment:

B&F Memorandum No. 24

UNITED STATES DEPARTMENT OF AGRICULTURE
Office of Budget and Finance
Washington 25, D. C.

August 17, 1948

DISTRIBUTION

To all holders of
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BUDGET AND FINANCE MEMORANDUM NO. 24

Compliance with Section 3678, Revised Statutes, in the
Expenditure of Appropriated Funds

As indicated in conferences this office has held with officials of the agencies of the Department, and as previously brought to your attention in the reports of this office on legislative matters, the House Agriculture Appropriations Subcommittee in its report (pp. 21-22, House Report No. 1571, 80th Congress) on the 1949 Agricultural Appropriation Bill emphasized the importance of adequate administrative and financial controls to assure that the intent and spirit of Section 3678, Revised Statutes (31 U.S.C. 628), are being observed. This Statute provides that:

"...sums appropriated for the various branches of expenditures in the public service shall be applied solely to the objects for which they were respectively made and for no others."

The integrity of democratic government rests upon the principles embodied in this Statute since its objective is to assure that the programs carried out by the Government are in accordance with the purposes and intent of the Congress. This Department has always recognized this Act as one of the most basic and fundamental of all the laws applicable to the expenditure of public funds. Accordingly, from time to time, departmental regulations setting forth policies and procedures have been issued as guides to the heads of agencies in connection with their responsibilities for (1) maintaining effective control over the obligation and expenditure of funds, (2) preventing the misuse or careless handling of public funds, and (3) determining whether agency procedures are adequate to assure compliance with the requirements of law and the policies of the Department.

In connection with these responsibilities, the concern of Congress for sound financial administration as expressed in the following statement (p. 549, House Hearings, 1949 Agricultural Appropriation Bill) by Representative Dirksen, Chairman of the Subcommittee on Agricultural Appropriations, is of deepest significance to the Department and the heads of its agencies:

"I think I could say for the record, and seek to make it abundantly clear, that we did not have in mind singling out any agency or making any particular bureau a target. The fact of the matter is that this general subject matter has probably been more roundly discussed on the floor of Congress every year than any other single matter I know of. Constantly there has been pressure from the top of the Appropriations Committee on down to the various subcommittees to make whatever explorations they could considering the facilities and personnel that were available. We had to start at some level, so we started at this level seeking to ascertain, if we could, what the general distribution of administrative funds was.

"It is being done with respect to other departments of the Government, and I suppose it will be a continuing study. Behind it is the fact that there is a constant demand for making sure that appropriations are being used in the intent and in the spirit for which they were made."

In view of the scope, volume and complexity of the programs, and organizational, geographic and other factors involved in program execution, it is recognized by all of us, I believe, that compliance with the spirit and intent of Section 3678, Revised Statutes, requires continual attention, including periodic analyses and appraisal of the adequacy of the supervision, controls and systems currently operative within each agency. In view of the concern expressed by the Appropriations Committee, we deem it urgently necessary that the head of each agency take such additional action as may be needed at this time to make certain that present administrative and operating arrangements are adequate. If current examinations indicate a need for strengthening such supervision, controls or procedures, appropriate modification or other corrective action should be taken without delay.

Problems in this area seem to divide themselves into two general categories. One may be said to be "substantive," where in the course of administering a program questions arise which involve primarily the point as to whether expenditures may properly and wisely be made for a type of activity, a course of action, or an object of expenditure entirely consistent with or essential to the effective accomplishment of the objective or purpose for which the appropriation was made, but which was not or could not be clearly foreseen in its exact present form when the appropriation was requested and discussed. The settlement of specific questions of this kind frequently involves primarily questions of law, and almost always, secondarily, questions of policy, administrative judgment, governmental ethics, budgetary and legislative history and other factors. The second category, which may be said purely for the purpose of this memorandum to be "fiscal," involves the same basic, substantive question as the first, but also frequently involves an additional problem, namely, the extent to which various appropriations are properly chargeable for a portion of an

aggregate expense applicable to programs and activities financed from all such appropriations. The basis for the determination of such questions is a matter of great importance from the standpoint of the principle dealt with in Section 3678.

Although one of the problems in this latter area is the equitable distribution of so-called general administrative expense, consideration must also be given to the equitable distribution of program costs where common program services such as supervisory, technical, or similar types of work, are financed from more than one appropriation. Again, due to differences in organization, the size, nature, and complexity of program, methods of financing, and other factors, the internal procedures governing fund utilization and control which are most practicable and effective in one agency will not necessarily be practicable in another. However, there are basic methods and principles that are generally applicable and some of these are set forth below. While discussed primarily on the basis of their application to the distribution of salary expense (usually the largest single expense item) they are applicable equally to the distribution of other types of program and administrative expense.

1. Direct charges of program and administrative costs. When it is practicable to identify expenses with, and charge specific costs to, a particular authorized program, such expenses should be charged directly to the applicable appropriation.
2. Allocation of program and administrative costs to appropriations on basis of continuous work analyses, where program and administrative costs involve two or more appropriations. In these circumstances, charges may be based on the output of work related to each appropriation. The measurement of the work output may be expressed in terms of time spent or in terms of work load. The time spent basis for determining appropriation charges involves the use of time reports prepared currently by each employee whose work involves more than one appropriation. On a work load basis, a satisfactory system for distributing appropriation charges must be determined in accordance with the circumstances and conditions existing in each agency. It may be desirable to base the distribution on such factors as the number of documents handled, the number of postings, the number of technical surveys made or reviewed, or any other unit of measure which is representative of all phases of the work handled and will result in an equitable charge against the respective appropriations. A combination of several work load units may be used in some instances to arrive at an appropriate distribution. In other instances a combination of work load, time spent, or similar bases may be used in distributing expenses to the appropriations chargeable.

3. Allocation of program and administrative costs to appropriations on the basis of periodic work analyses. Where periodic examinations or spot checks of the work output on a semiannual, quarterly or similar basis, will provide sufficient information to assure proper distribution of program and administrative costs to the applicable appropriations, this method may be utilized. Where program activities fluctuate materially because of seasonal or other conditions, special provision should be made for taking any such factors into account.

As previously indicated, the method used in one agency to assure compliance with Section 3678, Revised Statutes, may not be workable in another agency. It is not feasible, therefore, to establish a uniform procedure for all agencies. The basic requirements are: (a) That the system used must adhere to the principle that the total charge against each appropriation is related in a reasonable and equitable manner to the amount of work actually performed and to costs incurred in carrying out the work authorized by that appropriation, and (b) that the methods used and their application in the distribution of charges are supported by factual data.

Agency heads should give continuing attention to the entire question of the equitable distribution of expenses to the various appropriations or funds administered by their respective agencies, and should take any action which may be deemed necessary or appropriate to strengthen methods and controls established to assure a proper expense distribution and compliance with the spirit and intent of Section 3678. The Office of Budget and Finance is continuing to give this subject special study on a department-wide basis, and within its available staff resources is reviewing with the agencies of the Department their procedures for the distribution of expenses. Problems or questions which agencies may have concerning this matter should be taken up with Mr. John C. Cooper, Jr., Assistant Director of Finance, Extension 4997, or Mr. Stancil M. Smith, Chief of the Accounting Division, Extension 3614.

W. A. J. J. J.